

**CITY OF SAN JOSE**  
**2009-2013 ADOPTED CAPITAL IMPROVEMENT PROGRAM**

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES**

The 2009-2013 Adopted Capital Improvement Program (CIP) derives its funding from a variety of sources. The following table provides a listing of those sources grouped by major category, along with a comparison with the 2008-2012 Adopted CIP.

<b><u>Source</u></b>	<b><u>2008-2012 CIP</u></b> <b><u>(\$ millions)</u></b>	<b><u>2009-2013 CIP</u></b> <b><u>(\$ millions)</u></b>	<b><u>Difference</u></b> <b><u>(\$ millions)</u></b>
Beginning Fund Balances	\$ 1,185.0	\$ 840.7	\$ (344.3)
Sale of Bonds	67.9	37.0	(30.9)
Other Agencies/Grants	201.4	305.2	103.8
Fees and Charges	263.8	276.0	12.2
General Fund	39.5	51.7	12.2
Transfers from Other Funds	1,103.9	662.7	(441.2)
Interest Income	57.4	66.0	8.6
Other Revenue	<u>202.1</u>	<u>160.8</u>	<u>(41.3)</u>
<b>TOTAL</b>	<b>\$ 3,121.0</b>	<b>\$ 2,400.1</b>	<b>\$ (720.9)</b>

**Beginning Fund Balances**

The 2009-2013 Beginning Fund Balances of \$840.7 million are currently estimated below the 2008-2012 CIP level by \$344.3 million (29.1%). The two largest capital programs in the 2009-2013 Adopted CIP account for 67% of the Beginning Fund Balances from the prior CIP and over 80% of the decrease from the prior CIP. The Airport Capital Program accounts for 44% (\$370.6 million) of the Beginning Fund Balances, a decrease of \$253.4 million from the prior CIP based on substantial completion of the Airport Master Plan build-out. The Parks and Community Facilities Development Capital Program has Beginning Fund Balances totaling \$195.1 million accounting for 23% of the Beginning Fund Balances and reflect a lower balance than the prior CIP due to the construction award of major bond projects in 2007-2008. As a significant number of capital projects are scheduled for completion over the next five years in these programs, a significant reduction should occur to the beginning fund balance total.

**Sale of Bonds**

Total bond proceeds expected over the next five-year period of \$37.0 million reflect a \$30.9 million (46%) decrease compared to the estimates included in the last CIP. In the Parks and Community Facilities Development Capital Program (\$28.9 million decrease) all remaining bond sales and resulting proceeds occurred in June 2008, and therefore, are not reflected in the Adopted CIP. The decrease in the Municipal Improvements Capital Program (\$4.2 million) reflects the near completion of the remaining technology, furniture, and equipment purchases related to the City Hall project. In the Service Yards Capital Program (\$9.6 million decrease), the sale of bonds to fund Phase II of the Central Service Yard will now occur in an internal debt service fund and is no longer reflected in the Adopted CIP. Lastly, the decrease in the Library Capital Program (\$5.3 million) reflects the timing and completion of several bond projects. The drop in bond proceeds described above is partially offset by an increase in the Airport Capital Program (\$12.5 million) related to FMC site reuse

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Sale of Bonds (Cont'd.)**

preparation and the Public Safety Capital Program (\$4.6 million) due to bond proceeds that were not issued as expected in prior years and the timing of remaining public safety projects expected to occur in the Adopted CIP.

It should be noted, however, that the majority of bond proceeds associated with the Airport Capital Program are not reflected in this category because they are technically considered a Transfer from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund.

**Other Agencies/Grants**

This category totaling \$305.2 million is comprised of federal (\$146.3 million) and State (\$82.2 million) grants, contributions from other agencies that use the Water Pollution Control Plant (\$69.5 million) and the Sanitary Sewer System (\$1.9 million), Redevelopment Agency (\$3.3 million), Santa Clara County (\$497,000), Valley Transportation Authority (\$600,000), Santa Clara Valley Water District (\$300,000), and other agency (\$620,000) proceeds. On an overall basis, estimated revenues from these sources reflect an increase of \$103.8 million (52%) from the 2008-2012 Adopted CIP.

Almost all of the funding from the federal Government is allocated to the Airport Capital Program (\$118.0 million) and the Traffic Capital Program (\$27.8 million) to support eligible projects in those areas. In the State grant category, it is anticipated that \$78.5 million will support traffic projects, primarily due to the revenue expected as a result of the recent passage of Propositions 1B and 42; and \$3.7 million will support parks projects. The contributions from the Valley Transportation Authority and other agencies will be used to support additional traffic and parks projects.

**Fees and Charges**

The 2009-2013 Adopted CIP includes an estimate of \$276.0 million from the Fees and Charges category, an increase of \$12.2 million from the level included in the 2008-2012 Adopted CIP. On an overall basis, the revenue estimates in this category assume an increase (4.6%) entirely due to the reallocation of the North San José Traffic Impact Fee to this category. Normalizing for this reallocation, the revenue estimates in this category assume a decrease (4.2%) based on projected activity and actual performance in the individual categories. The following table compares the components of the 2009-2013 Adopted Fees and Charges estimates with those included in the 2008-2012 Adopted CIP.

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Fees and Charges (Cont'd.)**

<b><u>Source</u></b>	<b><u>2008-2012 CIP (\$ millions)</u></b>	<b><u>2009-2013 CIP (\$ millions)</u></b>	<b><u>Difference (\$ millions)</u></b>
Construction and Conveyance Tax	\$ 127.0	\$ 121.0	(6.0)
Construction Excise Tax	72.2	70.0	(2.2)
Building and Structure Construction Tax	50.2	48.4	(1.8)
North San José Traffic Impact Fee	0.0*	23.3	23.3
Sanitary Sewer Connection Fees	6.3	5.6	(0.7)
Water Utility Fees	4.6	4.3	(0.3)
Storm Drainage Fees	1.6	1.9	0.3
Residential Construction Tax	1.1	1.0	(0.1)
Major Water Facilities Fees	0.8	0.5	(0.3)
<b>TOTAL</b>	<b>\$ 263.8</b>	<b>\$ 276.0</b>	<b>\$ 12.2</b>

\* The North San José Traffic Impact Fee was allocated as part of the Other Revenue category as part of the 2008-2012 Adopted CIP and has been reallocated to the Fees and Charges category in this Adopted CIP.

Following is a discussion of the revenue estimates for the three largest sources within the Fees and Charges category.

**Construction and Conveyance Tax**

The Construction Tax portion of the Construction and Conveyance Tax category is levied on most types of construction. For residential construction, the tax rate is based upon the number of unit constructed and ranges from \$75 per unit located in a building containing at least twenty dwelling units to \$150 for a single-family residence. The commercial and industrial rate is eight cents per square foot of floor area constructed. The Construction Tax accounts for approximately 2% of the total Construction and Conveyance Taxes collected.

The Conveyance Tax portion of the Construction and Conveyance Tax category is imposed upon each transfer of real property where the value of the property exceeds \$100. The tax is imposed at a rate of \$1.65 for each \$500 of the value of the property. The Conveyance Tax accounts for approximately 98% of the total Construction and Conveyance Taxes collected.

The five-year projection for Construction and Conveyance Tax revenues totals \$121 million, which is a \$6.0 million (4.7%) decrease from the \$127 million estimated in the 2008-2012 Adopted CIP. The Construction and Conveyance (C&C) Tax revenue projections are based upon: 1) a review of prior year collection trends; 2) a review of year-to-date residential sales activity in San José; 3) a review of year-to-date tax receipts; and 4) projections of the future strength of the San José real estate market. On an annual basis, collections are projected to fall to \$23 million in 2008-2009 (from the current year revenue estimate of \$27 million) and increase modestly to \$25 million in the third year of the CIP.

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### SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)

#### Fees and Charges (Cont'd.)

##### Construction and Conveyance Tax (Cont'd.)

As correctly projected in the prior CIP, the extreme distress in both the national and local real estate markets has seen collections of the Construction and Conveyance Tax plummet from the peak levels two years ago. The decline in the number of real estate transactions coupled with the effects of the recent subprime lending situation continues to negatively impact C&C collections. As of June 2008, C&C collections experienced declines in 24 out of the 26 months, when compared to the same months in the prior year. This budget assumes that the housing market slowdown will bottom out within the next two years and C&C tax receipts will reflect a more sustainable level of ongoing housing resale activity, modestly increasing in the third year of the five-year CIP.

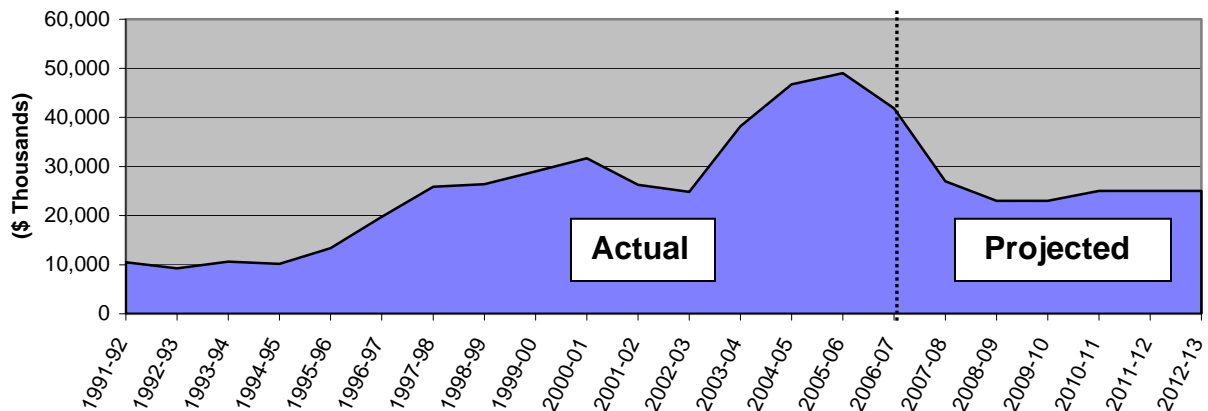
Based on the Council-approved distribution formula, C&C funds allocated in the 2009-2013 Adopted CIP are displayed in the table on the following page.

#### Construction and Conveyance Tax Distribution

Program	Dist.	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	5-Year Total
Parks	64.00%	14,720,000	14,720,000	16,000,000	16,000,000	16,000,000	77,440,000
Park Yards	1.20%	276,000	276,000	300,000	300,000	300,000	1,452,000
Fire	8.40%	1,932,000	1,932,000	2,100,000	2,100,000	2,100,000	10,164,000
Library	14.22%	3,271,000	3,271,000	3,555,000	3,555,000	3,555,000	17,207,000
Service Yards	8.78%	2,019,000	2,019,000	2,195,000	2,195,000	2,195,000	10,623,000
Communications	3.40%	782,000	782,000	850,000	850,000	850,000	4,114,000
<b>Total</b>	<b>100.00%</b>	<b>23,000,000</b>	<b>23,000,000</b>	<b>25,000,000</b>	<b>25,000,000</b>	<b>25,000,000</b>	<b>121,000,000</b>

A graph of the actual and projected C&C Tax revenues is provided below. It illustrates the tremendous growth of the prior three years in this category, and the anticipated return this year and in subsequent years of this CIP to a more sustainable level of activity.

#### Construction and Conveyance Tax Revenues



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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Fees and Charges (Cont'd.)**

Construction Excise Tax

The Construction Excise Tax is levied upon construction, alteration, repair, or improvement of any building or structure that is for residential or commercial purposes or is associated with a mobile home. The tax may be used for any “usual current expense” of the City; however, the City Council has historically utilized the majority of these funds for traffic improvements. Based upon the construction projections provided by the Planning, Building and Code Enforcement Department and historical collection patterns, the revenue estimates included in the 2009-2013 Adopted CIP total \$70.0 million, with \$13.0 million forecasted for 2008-2009. The 2009-2013 Adopted CIP represents a decrease of \$2.2 million (3.0%) from the total amount estimated in the 2008-2012 Adopted CIP. This slight decrease reflects the assumption that the local residential construction slowdown will continue to weigh on these revenues, however, these revenues are expected to grow moderately during the forecast period.

Building and Structure Construction Tax

The Building and Structure Construction Tax is levied on residential, commercial, and industrial development. The tax is collected based on building valuation. The use of funds is restricted to capital improvements on major arterial and collector streets, including bridges, culverts, and lighting as well as traffic control systems that increase traffic volume.

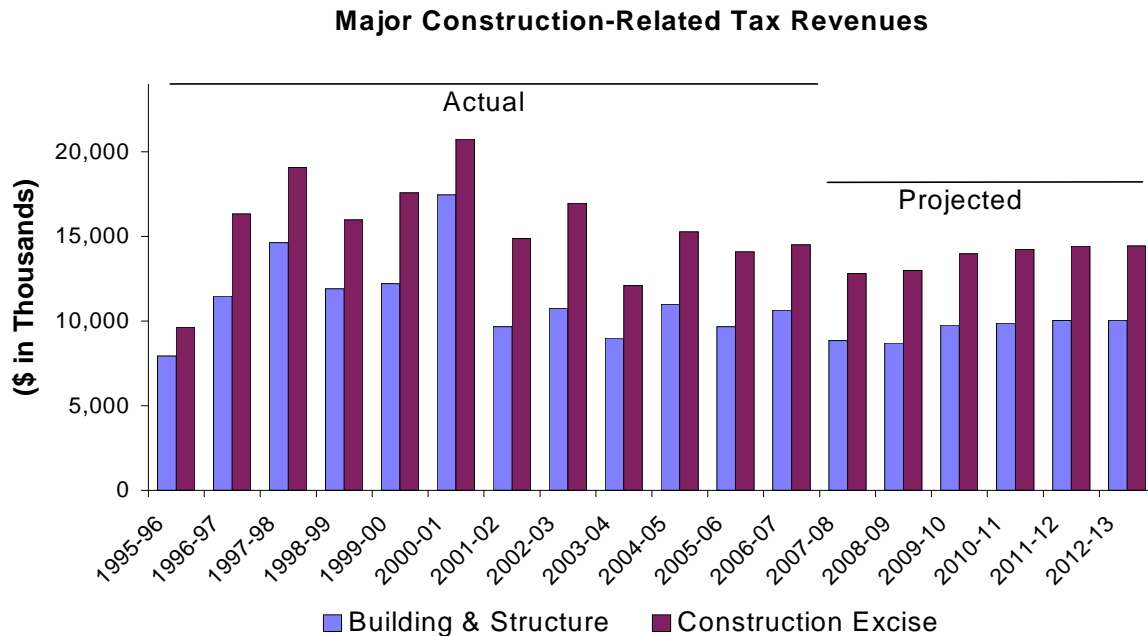
Based on construction activity forecasts supplied by the Planning, Building and Code Enforcement Department and an analysis of actual collection patterns, the five-year projection for the Building and Structure Construction Tax totals \$48.4 million, with annual proceeds ranging from \$8.7 million to \$10.0 million. This is a decrease of approximately \$1.8 million from the estimates included in the 2008-2012 Adopted CIP. While collections are expected to improve over the five-year period, the projected activity levels are still well below the peak. For instance, the 2008-2009 revenue estimate of \$8.7 million is a drop of 50% from the actual receipts in 2000-2001 of \$17.4 million.

The graph on the following page compares the actual and projected revenues for both the Building and Structure Construction and the Construction Excise Taxes, by year.

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**SUMMARY OF CAPITAL IMPROVEMENT PROGRAM REVENUES (CONT'D.)**

**Fees and Charges (Cont'd.)**



**General Fund**

General Fund contributions to capital projects included in the Adopted CIP total \$51.7 million. These funds are used to support the following capital programs:

- Traffic (\$12.7 million) – Includes \$6.4 million for pavement maintenance repair and \$5.5 million to address deferred maintenance backlog projects including \$2.3 million approved as part of the 2008-2009 Adopted Operating Budget for maintenance backlog street resurfacing on Story Road and Leigh Avenue;
- Public Safety (\$13.0 million) – Funds fire apparatus replacement and supplements Public Safety Bond projects;
- Parks and Community Facilities Development (\$10.2 million) – Funds Watson Park site cleanup costs and other parks facilities;
- Municipal Improvements (\$10.0 million) – Funds methane monitoring, HP Pavilion emergency repairs, fuel tank monitoring, miscellaneous repairs, and one-time funding to fund building facilities maintenance projects and the fiber optic communications link to the new South San José Police Substation; and
- Service Yards (\$5.8 million) – Funds Service Yards Phase I debt service payments.

**Transfers from Other Funds**

Transfers totaling \$662.7 million are the largest source of revenue in the 2009-2013 Adopted CIP primarily due to the inclusion of Transfers between funds associated with the Airport Program (\$322.4

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**Transfers from Other Funds (Cont'd.)**

million). Other significant transfers are reflected in the following programs: Water Pollution Control (\$169.6 million), Sanitary Sewer System (\$73.9 million), Parks and Community Facilities Development (\$32.7 million), Library (\$16.4 million), Water Utility System (\$16.4 million), Storm Sewer System (\$15.7 million), Parking (\$13.8 million), and Municipal Improvements (\$1.8 million).

The transfer amount in the 2009-2013 Adopted CIP is below (\$441.2 million) the amount included in the 2008-2012 Adopted CIP due in large part to the timing and substantial completion of Airport projects (\$527.2 million decrease). As discussed earlier, bond proceeds are the source of funding for these transfers from the Airport Fiscal Agent Fund to the Airport Revenue Bond Improvement Fund to support the majority of the Airport Master Plan projects. The decrease in this category is partially offset by increases in most of the programs including the transfer from the Sewer Service and Use Charge Fund to the Water Pollution Control Capital Program (\$51.1 million increase) to fund the capital projects recommended over the next five years.

**Interest Income**

The 2009-2013 Adopted CIP includes \$66.0 million from interest income. This is an increase of \$8.6 million (15%) from the estimate included in the 2008-2012 Adopted CIP. The overall increase is entirely due to the interest earned in the Airport Capital Program related to the recent bond issuance which occurred in September 2007. This increase is partially offset by a decrease in the interest rate assumed compared to the 2008-2012 Adopted CIP.

**Other Revenue**

The Other Revenue category totals \$160.8 million, a decrease of \$41.3 million (20%) from the 2008-2012 Adopted CIP. Revenue in this category is generated mainly through Airport revenues (\$118.8 million), such as Passenger Facility Charges (PFCs) and tenant improvement payments. In addition, the Service Yards Capital Program (\$14.0 million), Public Safety Capital Program (\$2.6 million) and Library Capital Program (\$2.0 million) include proceeds from the sale of surplus land. Lastly, revenues in this category include parking revenue related to Lake Cunningham Park (\$3.6 million) and lease revenue related to Emma Prusch Memorial Park (\$0.4 million) in the Parks and Community Facilities Development Capital Program.

The Other Revenue category also includes developer contributions of \$17.5 million, which is significantly lower than the 2008-2012 Adopted CIP totals of \$38.8 million. The majority of this decrease results from the reallocation of revenues (\$23.3 million) related to the development of North San José in the Traffic Capital Program to the Fees and Charges revenue category. The Traffic Capital Program does, however, include developer contributions of \$8.2 million, primarily associated with providing improvements at Bailey Avenue and Route 101 in the North Coyote Valley. The Developer Assisted Projects Capital Program includes \$7.3 million to support underground utility activities and the Parks and Community Facilities Development Capital Program includes (\$2.0 million) associated with the Calpine Open Space Agreement.